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RANGELAND RESOURCES LTD.

University of Alberta
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Edmonton, Alberta T6G 2G6



1994 ANNUAL REPORT

Company Profile

Rangeland Resources Ltd. is a junior Canadian resource company listed on the Alberta Stock Exchange under the trading symbol RLD.

The company specializes in the development of new concepts for exploration drilling and forms joint ventures with industry partners to explore for new resources of oil and gas on these exploration prospects.

The company is dedicated to increasing the asset value of the company shares through environmentally responsible exploration for oil and gas reserves utilizing the experience and technical expertise of our employees, partners and consultants.

Management and directors hold a majority interest in the outstanding shares of the company, and are committed to increasing the asset value per share.

Annual Meeting

The Annual Meeting of the Shareholders of Rangeland Resources Ltd. will be held in the "Black Gold D Room", Sandman Hotel, 888 - 7th Avenue S.W., Calgary, Alberta, on December 12, 1994 at 3:00 p.m.

Highlights

	<u>1994</u>	<u>1993</u>
Net Revenue	\$2,172,910	\$1,480,070
Cash flow from operations	1,552,611	1,092,458
Cash flow per share	0.27	0.191
Net Income	504,255	337,146
Net Income per share	.088	.059
Weighted average number of shares outstanding	5,746,873	5,693,290
Number of issued shares	5,779,373	5,709,373

Report to the Shareholders

The company is pleased to report the largest annual increase in production since incorporation. Net production increased from 310 barrels of oil or equivalents per day to 506 at yearend, a gain of 63% over the previous year.

During the year ended August 31, 1994. The company participated in the drilling of 11 wells, resulting in 3 gas completions, 4 oil completions and 4 dry holes.

Revenues from oil and gas increased 46.8% to 2,172,910 from \$1,480,070. This revenue increase was achieved despite falling oil prices, which averaged 15% below the average price obtained in the prior year.

As operating expenses are essentially constant, the lower prices primarily reduce the cash flow, but the substantial gains in production from new projects offset the price declines, resulting in a 42.1% increase in cash flow from \$1,092,458 to \$1,552,611, or from 0.191 to 0.270 on a per share basis.

Industry Outlook

The intermediate term outlook for natural gas is somewhat negative, as the industry response to rallying gas prices was to drill an excessive number of gas wells, which places a downward pressure on prices as they compete for markets.

Oil prices continue to fluctuate as a result of political events in OPEC countries, but as economic gains in emerging economies create escalating demands for energy, the gap between supply and demand will continue to narrow and should result in increasing oil prices.

Company Outlook

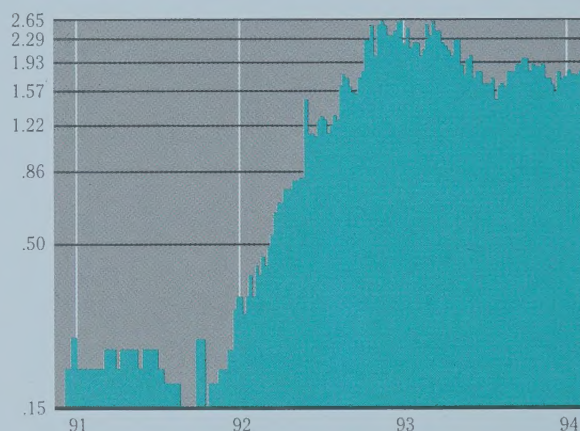
Rangeland will continue to focus on oil prospects to provide near term growth but will devote some exploration effort toward building gas reserves for future markets. With the sizeable capital outlays for compressor stations now behind us, the cash flow available for new exploration projects will finance a significant increase in future activity.

Rangeland employees and associates have the capability to research areas geologically and geophysically to provide a selection of exploratory prospects to maintain an above average return on investment. Rangeland also has taken over operations of three of our larger interest properties to maintain cost control over the operating expenses for a major portion of our oil production.

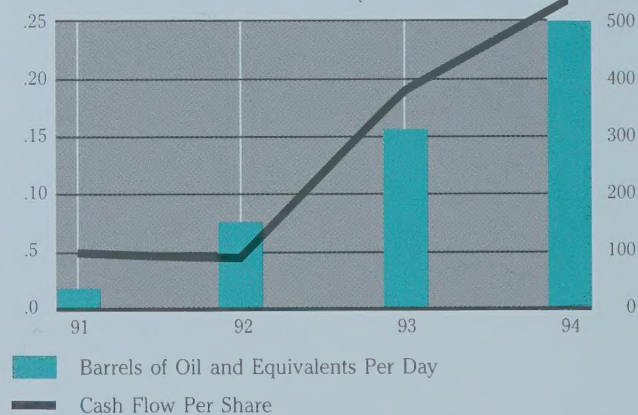
The company takes pride in the fact that all of the increases in production have been financed entirely out of cash flow, and our basic goal is to not dilute the shareholders equity in order to obtain a temporary increase in the rate of growth, but to provide continual annual increases in the assets per share by pursuing imaginative exploration programs and practical drilling operations.

Company shares tend to be closely held and have traded infrequently over the past year in a remarkable narrow price range. A chart has been prepared to compare the price at which shares have traded relative to the growth in production and cash flow during the past three years. As the current cash flow should sustain this rate of growth and forthcoming activities are expected to provide significant increases in asset value, we anticipate that the markets will begin to reflect those values in the coming year.

Common Share Prices



Year End Production & Cash Flow Per Share



Properties

Alberta

Barrhead

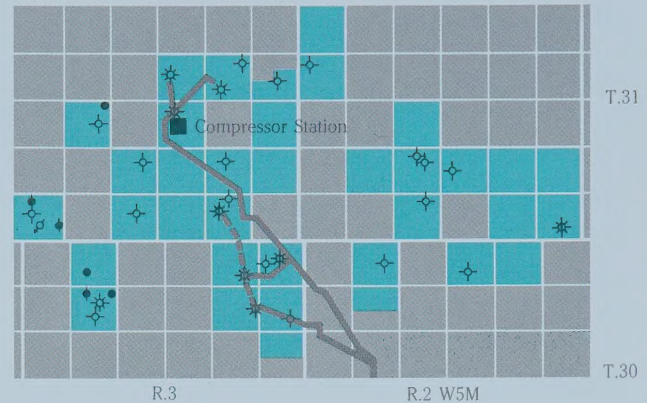
Rangeland participated in the drilling of three additional wells in this gas development project, two being completed for gas production, and one being abandoned. A total of seven gas wells have been completed to date, and four more are scheduled for drilling later this year.

A compressor station was completed and gas sales from 3 wells commenced in October 1993. Two more wells will be placed on production this fall.



Barrhead Area

- Rangeland Acreage
- Gas Well
- Suspended Gas Well
- Suspended Well
- Dry & Abandoned Well
- Gathering Line
- Proposed Gathering Line



Carstairs Area

- Rangeland Acreage
- Gas Well
- Suspended Gas Well
- Oil Well
- Suspended Oil Well
- Injection Well
- Dry & Abandoned
- Gathering Line
- Proposed Gathering Line

Carstairs

Four wells were drilled in this large exploration project during the past year. One well was completed for Elkton gas, and one for Elkton oil. The Elkton reservoir was absent in a third well and was wet in the fourth well.

Completion of the gas compressor station resulted in 3 wells being onstream by November 1993, and additional wells will be placed on production this year.

Giroux/Kaybob

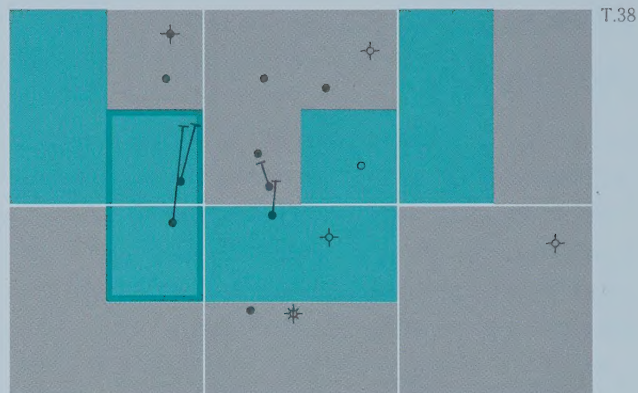
The anticipated test of the Notikewan and Gething on these leases was deferred to next year, as a major participant in the project has not decided whether to participate in the well or farmout their interest. This prospect holds significant potential for the company due to the major interest held in these lands.

Haynes

This project has developed into our most significant producing property. Following the June 1993 Nisku oil discovery from a well which was directionally drilled to a target below the Red Deer River, a lease was obtained on an extension of the feature south of the river. As there was no pipeline crossing the river, a long whipstock well was drilled to access the oil reserves south of the river.

Initial allowables limited production to 125 bopd per well, but after several months of production indicated no decline in reservoir pressure, the allowable was increased to 250 bopd per well. The pressures will be reviewed again in July 1995, at which time it is expected that further production increases will be allowed.

An additional four quarter sections have been acquired adjacent to these wells, and a farmout well will be drilled this fall to earn an interest in three quarter sections.



R.24 W4M

Haynes Area

- Rangeland Acreage
- Haynes Nisku C Pool
- Suspended Gas Well
- Oil Well
- Abandoned Oil Well
- Location
- Dry & Abandoned Well
- Directional Well

Highvale

A paleozoic test was drilled in July, but found the target reservoir low to the reference well. As seismic indicates structurally higher locations to be present, further drilling will be initiated.

Provost

One additional development well was drilled at a structurally high drainage location to help maintain production levels from this pool, as production declines from the earlier wells are in line with the rates predicted from reservoir depletion.

Wood River

One additional development well was drilled in the D2E unit during the year to maintain production levels and to access some reserves that were not being flushed by the waterflood.

Saskatchewan

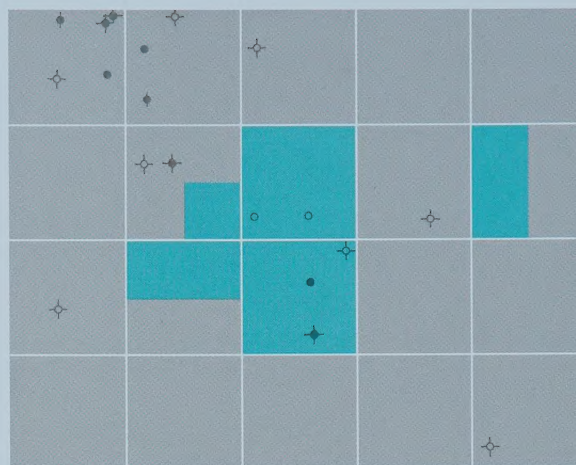
Antler

Two quarter-section leases were acquired at a December Crown sale to complement existing leases on a Mississippian subcrop prospect, and a well was drilled in January. A thick Mississippian oil section was encountered which flowed at rates exceeding 150 bopd. During the summer, six additional quarter section leases were acquired over all of the seismic feature, and two delineation wells are scheduled for drilling this fall.

Rangeland will operate all activities on this prospect, and will maintain a 40.0% working interest in all of the drilling wells.

Land

The company holds varying interests in over 40,000 acres of lease in Alberta, and lease acreage is being acquired in southeast Saskatchewan.



R.30 W1M

T.7

Antler Area

- Rangeland Acreage
- Oil Well
- Suspended Oil Well
- Abandoned Oil Well
- Proposed Location
- Dry & Abandoned Well

As the company is not oriented toward holding a large inventory of non-producing acreage, leases which are not involved in current exploration or development programs will be farmed out or dropped.

On behalf of the Board of Directors

Edward A. Horne

Auditors' Report

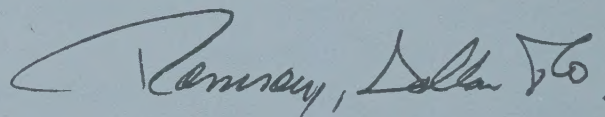
To the Shareholders of
Rangeland Resources Ltd.

We have audited the consolidated balance sheets of Rangeland Resources Ltd. as at August 31, 1994 and 1993 and the consolidated statements of income and retained earnings and changes in financial position for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at August 31, 1994 and 1993 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

Calgary, Alberta
October 31, 1994



Chartered Accountants

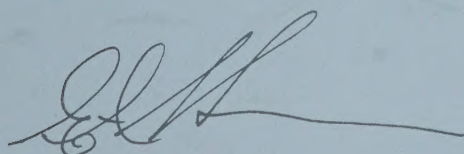
Consolidated Balance Sheets

Years ended August 31

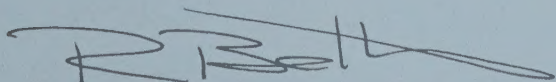
	<u>1994</u>	<u>1993</u>
Assets — Note 4		
CURRENT ASSETS		
Cash and term deposits	\$ 188	\$ 2,758
Accounts receivable	690,046	693,661
Prepaid expenses	18,742	7,801
	<u>708,976</u>	<u>704,220</u>
PROPERTY AND EQUIPMENT — Note 3	<u>2,764,208</u>	<u>2,113,471</u>
	<u><u>\$3,473,184</u></u>	<u><u>\$2,817,691</u></u>
Liabilities and Shareholders' Equity		
CURRENT LIABILITIES		
Bank indebtedness — Note 4	\$ 481,392	\$ 233,875
Accounts payable	353,273	662,775
	<u>834,665</u>	<u>896,650</u>
SITE RESTORATION AND ABANDONMENT	106,275	52,075
DEFERRED INCOME TAXES	366,763	209,763
	<u>1,307,703</u>	<u>1,158,488</u>
SHAREHOLDERS' EQUITY		
Share capital — Note 5	874,793	857,793
Contributed surplus	57,384	57,384
Foreign exchange adjustment	—	14,977
Retained earnings	<u>1,233,304</u>	<u>729,049</u>
	<u>2,165,481</u>	<u>1,659,203</u>
	<u><u>\$3,473,184</u></u>	<u><u>\$2,817,691</u></u>

See accompanying notes

APPROVED BY THE BOARD



Director



Director

Consolidated Statements of Income and Retained Earnings

Years ended August 31

	1994	1993
REVENUE		
Oil and gas sales, net of royalties	\$2,024,520	\$1,407,549
Alberta royalty tax credit	148,390	72,521
	<u>2,172,910</u>	<u>1,480,070</u>
EXPENSES		
Depletion and depreciation	906,333	707,073
Production	362,767	212,832
General and administrative, net of recoveries	233,005	145,754
Professional fees	19,364	24,826
	<u>1,521,469</u>	<u>1,090,485</u>
Income from operations	651,441	389,585
RECOVERY OF PRIOR YEARS' LOSSES IN SUBSIDIARY	19,814	—
GAIN ON SALE OF MARKETABLE SECURITIES	—	24,067
LOSS ON COMMODITY FUTURES	—	(2,012)
Income before income taxes	<u>671,255</u>	<u>411,640</u>
INCOME TAXES — Note 6		
Current	10,000	—
Deferred	157,000	74,494
	<u>167,000</u>	<u>74,494</u>
Net income	504,255	337,146
RETAINED EARNINGS, beginning of period	729,049	391,903
RETAINED EARNINGS, end of period	<u>\$1,233,304</u>	<u>\$ 729,049</u>
NET INCOME PER SHARE	<u>\$.09</u>	<u>\$.06</u>
NET INCOME PER SHARE, fully diluted	<u>\$.08</u>	<u>\$.06</u>

See accompanying notes

Consolidated Statements of Changes in Financial Position

Years ended August 31

	1994	1993
OPERATIONS		
Net income	\$ 504,255	\$ 337,146
Add (deduct) items not involving cash:		
Depletion and depreciation	906,333	707,073
Deferred income taxes	157,000	74,494
Foreign exchange adjustment	(14,977)	(2,188)
Gain on sale of marketable securities	—	(24,067)
Cash flow from operations	1,552,611	1,092,458
Change in non-cash operating capital	(316,829)	(196,191)
	<u>1,235,782</u>	<u>896,267</u>
FINANCING ACTIVITIES		
Bank indebtedness	247,517	233,875
Issuances of share capital	17,000	13,500
	<u>264,517</u>	<u>247,375</u>
INVESTING ACTIVITIES		
Additions to property and equipment	(1,502,869)	(1,447,339)
Proceeds on sale of marketable securities	—	50,317
	<u>(1,502,869)</u>	<u>(1,397,022)</u>
Decrease in cash	(2,570)	(253,380)
CASH, beginning of period	2,758	256,138
CASH, end of period	<u>\$ 188</u>	<u>\$ 2,758</u>
CASH COMPRISED OF:		
Cash	\$ 188	\$ 838
Term deposits	—	1,920
	<u>\$ 188</u>	<u>\$ 2,758</u>

See accompanying notes

Notes to Consolidated Financial Statements

Years ended August 31

1. ORGANIZATION AND BASIS OF PRESENTATION

Rangeland Resources Ltd. (Rangeland) is incorporated in Alberta and is primarily engaged in oil and gas exploration and production.

Its wholly owned subsidiary, Rangeland Resources Inc., is incorporated in the United States and is engaged in similar activities. During the year, Rangeland Resources Inc. was sold at fair market value to a company owned by a shareholder.

2. ACCOUNTING POLICIES

Significant accounting policies are summarized as follows:

(a) Principles of Consolidation

The consolidated financial statements include the accounts of Rangeland and its wholly owned subsidiary, Rangeland Resources Inc., for the year ended August 31, 1993 only, as the subsidiary was sold during the year ended August 31, 1994.

(b) Foreign Currency Translation

Rangeland's foreign subsidiary was considered to be a self-sustaining subsidiary and accordingly its financial statements were translated into Canadian dollars using the current rate method as follows:

- (i) All assets and liabilities at the rate of exchange prevailing at balance sheet date.
- (ii) Revenue and expenses (including depletion and depreciation) at the average rate in effect during the year.

Unrealized gains and losses on translation were segregated in the shareholders' equity section of the Consolidated Balance Sheet.

(c) Oil and Gas Properties

Rangeland follows the full cost method of accounting whereby all costs of exploring for and development of oil and gas reserves are capitalized. Such costs include lease acquisition costs, geological and geophysical expenditures, carrying charges on non-producing properties, costs of drilling both productive and non-productive wells and overhead expenses related to exploration activities. These costs are limited to an amount equal to the estimated future net revenues from proven reserves based on current prices and costs, plus the lower of cost and estimated fair value of unproven properties, less future general and administrative expenses, financing costs, income taxes and site restoration and abandonment costs. Where capitalized costs exceed this ceiling amount, this excess is written off as an extra charge to depletion.

All recoveries of costs through sale of petroleum and natural gas properties, drilling incentive credits and petroleum incentive payments are credited against the cost of oil and gas properties. Gains or losses are only recognized when a significant portion of the reserves are disposed of.

Costs are amortized using the unit of production method based upon estimated proven developed reserves derived from reports prepared by independent consultants and by management.

(d) Joint Ventures

Substantially all the exploration and development activities related to oil and gas are conducted jointly with others. These financial statements reflect only Rangeland's proportionate interest in such activities.

(e) Depreciation

Equipment and furniture are recorded at cost and depreciation is provided using the declining balance method at the rates shown in Note 3.

(f) Site restoration and abandonment

A provision is established for estimated future costs of site restoration of oil and gas production interests, including the removal of production facilities at the end of their useful life. Costs are based on management's estimates of the anticipated method and extent of site restoration. The annual charge, determined on the same basis as the depletion and depreciation of the underlying asset, is included in depletion and depreciation.

3. PROPERTY AND EQUIPMENT

	Rate	Cost	Accumulated Depreciation & Depletion	Net Book Value August 31, 1994
Canadian oil and gas properties		\$3,538,347	\$1,475,208	\$2,063,139
Well equipment	30%	1,196,354	502,711	693,643
Furniture and office equipment	20%	21,943	14,517	7,426
		<u>\$4,756,644</u>	<u>\$1,992,436</u>	<u>\$2,764,208</u>

	Rate	Cost	Accumulated Depreciation & Depletion	Net Book Value August 31, 1993
Canadian oil and gas properties		\$2,601,578	\$ 922,208	\$1,679,370
U.S. oil and gas properties		422,849	422,849	—
Well equipment	30%	632,653	205,435	427,218
Furniture and office equipment	20%	19,543	12,660	6,883
		<u>\$3,676,623</u>	<u>\$1,563,152</u>	<u>\$2,113,471</u>

In 1993, costs of \$24,072 relating to the U.S. cost centre exceeded the ceiling amount and were charged to depletion. Site restoration and abandonment costs of \$54,200 (1993 — \$46,575) are included in depletion.

4. BANK INDEBTEDNESS

Bank indebtedness is documented by an overdraft lending agreement with a maximum amount of \$1,250,000. Amounts drawn pursuant to this agreement are repayable on demand, bear interest at the bank's prime interest rate for Canadian dollar commercial loans plus 1% and is secured by a general security agreement and a \$1,000,000 debenture which provides a first fixed charge over Rangeland's Wood River property and a first floating charge over the remainder of Rangeland's assets.

5. SHARE CAPITAL

Authorized:

Unlimited number of Common voting shares with no par value

	Number of Shares	Amount
Issued:		
August 31, 1992	5,664,373	\$844,293
Issued during 1993	45,000	13,500
August 31, 1993	5,709,373	857,793
Issued during 1994	70,000	17,000
August 31, 1994	<u>5,779,373</u>	<u>\$874,793</u>

Stock Options:

The Board of Directors may issue directors, consultants and employees options of up to 10% of the issued and outstanding shares on such terms and conditions as they may deem appropriate, pursuant to the terms of the Company's share option plans, subject to compliance with the rules of the Alberta Stock Exchange.

The following stock options have been issued and remain outstanding at August 31, 1994:

- (a) To directors and officers, options to purchase 170,000 common shares at \$0.25 which expire in 1995. 60,000 options were exercised during the year.
- (b) To an employee, an option to purchase 100,000 common shares pursuant to share option plan at \$0.30 per share in allotments of 20,000 common shares per year and a further option to purchase 90,000 common shares at \$0.20 per share in allotments of 20,000 per year of which 10,000 were exercised during the year. The options to purchase at \$0.20 per share expire in 1995 and the options to purchase at \$0.30 expire in 1996.
- (c) To an employee, an option to purchase 20,000 common shares pursuant to a share option plan at \$0.70 per share until 1997.
- (d) To a consultant, an option to purchase 55,000 shares pursuant to a share option plan at \$1.25 until 1998.

During 1993 options to purchase 40,000 common shares at \$0.25 per share and options to purchase 5,000 common shares at \$0.70 were exercised.

6. INCOME TAXES

The provision for income taxes differs from the amount that would have resulted had the combined federal and provincial rate of 44.3% been applied to net income:

	August 31, 1994		August 31, 1993	
	Amount	%	Amount	%
Expected income tax expense	\$ 297,500	44.3	\$ 182,357	44.3
Resource allowance	(175,800)	(26.2)	(125,460)	(30.5)
Alberta royalty tax credit	(65,900)	(9.8)	(32,127)	(7.8)
Non-deductible site restoration and abandonment	24,000	3.6	—	—
Non-deductible crown royalties	90,200	13.4	50,214	12.2
Other	(3,000)	(0.4)	(490)	—
	<u>\$ 167,000</u>	<u>24.9</u>	<u>\$ 74,494</u>	<u>18.2</u>
Current	\$ 10,000		\$ —	
Deferred	157,000		74,494	
	<u>\$ 167,000</u>		<u>\$ 74,494</u>	

Balance in resource tax pools at August 31, 1994:

Canadian Oil & Gas Property Expense	\$ 228,400
Cumulative Canadian Development Expense	\$ 454,400

Corporate Information

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Directors

E. A. (Ted) Horne*
Calgary, Alberta

Harvey A. Trimble
Okotoks, Alberta

Roger Bethell*
Calgary, Alberta

David G. Smith*
Priddis, Alberta

Terrence J. Hopwood
Calgary, Alberta

**Members of the audit committee*

Officers

President
E. A. (Ted) Horne

VP Exploration
R. C. Bennett

Secretary
Gregory R. Harris

Solicitor

Gregory R. Harris
Barrister & Solicitor
Calgary, Alberta

Auditor

Ramsay, Dalton & Co.
Chartered Accountants
Calgary, Alberta

Exchange Listing

Alberta Stock Exchange — Symbol "RLD"

